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SIMPLIFYING THE ALLOTMENT SYSTEM

In anticipation of our first cost-based budget in fiscal year 1962, the Organization is placing increasing emphasis on the use of cost data for management purposes. By fiscal year 1960, the Comptroller hopes to have all operations on a cost basis.

In the adoption of cost-based budgeting principles, one of our first tasks will be the development of an accounting system designed for cost purposes, since the adjustment of the existing system would not satisfactorily serve our purposes.

In the past, this Organization and other government agencies could not have ^{satisfactory} proper cost classifications in their obligational accounting systems, so a complex allotment structure was developed in an attempt to provide ^{cost} ~~the~~ operating information ^{to serve the management purposes of Operating Officials} necessary for budgeting purposes. The allotment system was intended only to control available funds and could never be designed to provide management, on a simplified basis, with information concerning the current use of resources.

The Bureau of the Budget, in its bulletin "Improvement of Financial Management in the Federal Government," makes this comment concerning the recent law requiring cost-based budgets and allotment simplification,

".....allotments of funds should be made at the highest practicable level, consistent with the requirements of agency management for control of obligations, and any limitations on the use of funds imposed by the executive and legislative branches.

Accounting processes other than allotments should be employed to develop necessary operating or management data through use

of cost classifications. (Underscoring supplied)

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More accurate budget forecasts can be made when they are based on past experience reflecting the total use of resources; for example, stocks drawn from inventory as well as the payment of salaries. A budget forecast based on current costs is more effective and understandable than one based on the use of obligating authority, because the latter reflects both current and future costs, such as procurement for future delivery.

In moving toward a situation where allotments and costs serve their proper functions, the Organization experimented with a simplified allotment system, supported by cost center accounts, on a limited basis in fiscal year 1958. The results were sufficiently beneficial to warrant extending the simplification pattern to all components of the Organization in fiscal year 1959.

The pattern for 1959 is as follows:

Vouchered funds: one allotment each for headquarters, 25X1A
25X1A [REDACTED] and overseas components of the first organizational level under a Deputy Director.

Confidential funds:

1. Allotments for each project requiring an administrative plan *involving more than a pipe* or ~~over \$500,000 in approved amount.~~
2. Allotments by activity and country for overseas operations.
3. Allotments for headquarters, 25X1A
[REDACTED] and overseas for all other operations of the first organizational level under a Deputy Director.

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In those instances where management has indicated an interest in more detailed information, cost center accounts have been established for projects, activities, or organizational elements below the allotment level. Although the 1959 pattern is still being refined, the number of allotments has already been reduced over fifty percent. The change in allotment structure must, of necessity, be gradual to assure understanding and to work out the operating problems resulting from the adjustments of the system.

The ultimate objective is to have single allotments for obligating authority for vouchered and confidential funds for the first organizational level under a Deputy Director, and as many cost center accounts as management at all levels may find necessary for the purposes of reviewing performance against planned and approved operations. To expedite the accomplishment of this objective, the Organization is experimenting with single allotments for two major organizational levels in fiscal year 1959.

The top-level management in the Organization believes that much benefit will derive from raising the level of obligating authority to provide greater flexibility in the use of Organization resources. This will facilitate program planning and direction, and furnish to Operating Officials the cost and obligation information necessary to control and evaluate daily operations.

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